

Message Text

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ACTION EB-11

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SCI-06 INT-08 COME-00 TRSE-00 STR-08 ACDA-19 SAJ-01

CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10

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INFO OECD PARIS 3089

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SUBJ: OIL PRICE IMPACT ON FOREIGN EXCHANGE POSITION

REF: A. OECD PARIS 0921; B. ANKARA 0171; C. ANKARA 0357;
D. BONN 675

SUMMARY: TURKEY'S PRESENT ECONOMIC OUTLOOK IS AFFECTED
BY HIGHER PRICES OF OIL AND OTHER IMPORTED COMMODITIES,
PROSPECTIVE LARGER THAN USUAL IMPORTS OF WHEAT AND
SUGAR. RISING UNEMPLOYMENT IN GERMANY COULD CAUSE

RETURN OF SOME TURKISH WORKERS ADDING TO UNEMPLOYMENT
IN TURKEY AND POSSIBLY ERODING WORKER REMITTANCES.
PROSPECTS FOR RATE OF INFLATION JUMPING FROM CURRENT
20 PERCENT ANNUAL RATE TO 30-35 PERCENT. LOOKING BEYOND 1974 WE SEE
LARGE DRAWDOWNS OF PRESENT FOREIGN EXCHANGE RESERVES SHOULD
OIL PRICES REMAIN AT CURRENT LEVELS AND WORKERS REMITTANCES
FAIL TO GROW. END SUMMARY.

1. REGARDING FIGURES REPORTED PARA 2 REF (A) ON FX
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POSITION, OUR PROJECTIONS ALSO INDICATED DRAWDOWN OF

RESERVES IN 1974 LIKELY, ALTHOUGH SOMEWHAT LESS THAN SUGGESTED REF (A). WHILE IMPORT PROGRAM OF \$3 MILLION (REF B) REPRESENTS LARGE INCREASE OVER ACTUAL 1973 IMPORTS OF \$2.1 BILLION MUCH OF THE INCREASE WILL BE ABSORBED BY HIGHER PRICES OF OIL AND OTHER IMPORTED COMMODITIES. THESE HIGHER PRICES, EASING OF IMPORT DEPOSIT, REQUIREMENTS PLUS NEED FOR LARGER THAN USUAL WHEAT AND SUGAR IMPORTS COULD PUSH IMPORTS OVER \$3 BILLION. IF SO, FX DRAW-DOWN MIGHT APPROACH LEVELS SUGGESTED REF A.

2. WHILE FX NEEDS FOR IMPORTS WILL BE SHARPLY HIGHER, OUTLOOK FOR FX EARNINGS CLOUDED BY RECENT SUSPENSION OF MIGRATION TURKISH WORKERS TO GERMANY. RISING UNEMPLOYMENT IN GERMANY COULD CAUSE RETURN SOME WORKDER AND CERTAINLY WILL CUT HIGHLY PAID OVERTIME. RECENT REPORTS FROM BONN(REF D) SUGGEST FRG SEEKING WAYS ENCOURAGE RETURN OF UNEMPLOYED GUEST WORKERS. WHILE SUCH REFLOW OF LABOR WITH ACCUMULATED SAVINGS COULD BOOST REMITTANCES IN SHORT RUN, IT WOULD REDUCE THEM IN LONG RUN. WHATEVER HAPPENS TO REMITTANCES, SITUATION BOUND TO EXACERBATE ALREADY SERIOUS ENEMPLOYMENT PROBLEM IN TURKEY.

3. DOMESTICALLY, HIGHER FUEL PRICES WILL PLACE ADDED STRAINS ONGOVERNMENT BUDGET AND CONTRIBUTE TO PRICE INCREASES ALREADY RUNNING AT ABOUT 20 PERCENT ANNUAL RATE. THRITY TO THIRTY-FIVE PERCENT OUR BEST PRESENT GUESS FOR PRICE INCREASES IN 1974 WITH REAL GROWTH OF ABOUT 5 PERCENT. FOR EFFECT ENERGY SITUATION ON AG SECTOR SEE REF C.

4. LOOKING PAST 1974, SHOULD OIL PRICES REMAIN AT PRESENT LEVELS AND REMITTANCES FAIL TO GROW LARGE DRAWDOWNS OF FX PICTURE REMAINS WHAT HAPPENS TO WORKER REMITTANCES.
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